RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Nov. 22, 1995 **LETTER 1187**

POLITICS AS USUAL: So the Gingrich/Dole team backed up by the Congressional "young Republicans" stood fast on the thesis of a balanced budget in seven years. Clinton, wearing his new "tough, decisive and caring" face, announced that he wouldn't stand for a seven year timetable plus the dastardly cuts in Medicaid and welfare. And the "tragic" stand-off dragged on.

Clinton's popularity immediately improved as he repeatedly denounced the heartless Republicans. But what's this? The word, after six days of "shutting the government down," was that the voting public was getting fed up with not only the Republicans but the Democrats as well.

That did it. On Sunday evening Leon Panetta and Mr. Clinton announced that yes, the Democrats would agree to a balanced budget in seven years, but the Republicans would have to compromise on how much was to be cut in the various "safety net" and health plans.

So as this is written, it looks like the opposing teams will, in time, get together on just how the budget will be balanced, and seven years will be the timetable.

THE END? Primary bull markets don't end on news events. Bull markets only end in *exhaustion.* They end when the last buyer has spent his money. So if you're looking for bad news out of Washington to end this bull market, you're looking in the wrong place.

On the other hand, from a market standpoint, it's far more serious that the advance-decline ratio (NYSE) recorded its high over two months ago, on September 14 (see chart on page 2). Despite the diverging A-D ratio, the Dow has recorded a series of spectacular new highs. But this is important -- the *longer the elapsed time* without a confirming new high in the A-D ratio, the poorer the technical condition of the market becomes. It is this breadth/price divergence that could be the true indication of increasing market exhaustion. If so, exhaustion is occurring under the guise of a headline news event (i.e., the closing down of the government).

In the meantime, opinions and predictions about this market are literally filling the air. "The market is really expensive," "the market is really cheap," "the market is this," "the market is that." Opinions are one thing, but market action is fact -- market action is what's actually happening.

Now we have the technical problem of the *breadth/price divergence.* In the past (and this has happened many times in stock market history) breadth/price divergence has set the stock market up for potential, and I emphasize the word *potential,* trouble.

And yes, the potential trouble can be avoided. It can be avoided if the market will just erase the breadth/price divergence.

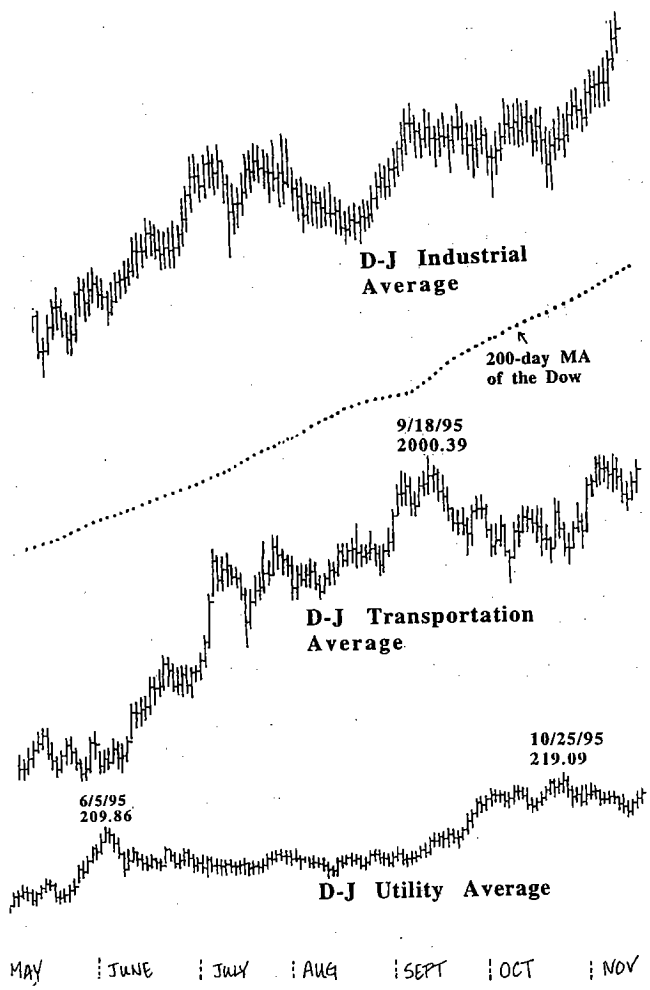
How does that work? Easy, the advance-decline ratio must merely rally to a new high, thus confirming the new Dow highs. Next question -- will that occur in this instance? Can the main body of stocks on the NYSE muster enough strength to take the advance-decline ratio to a new high above its September 14 high of -2.63? The advancing PTI suggests that there's a good chance it will happen. But why guess -- we'll just watch, and let the market tell us.

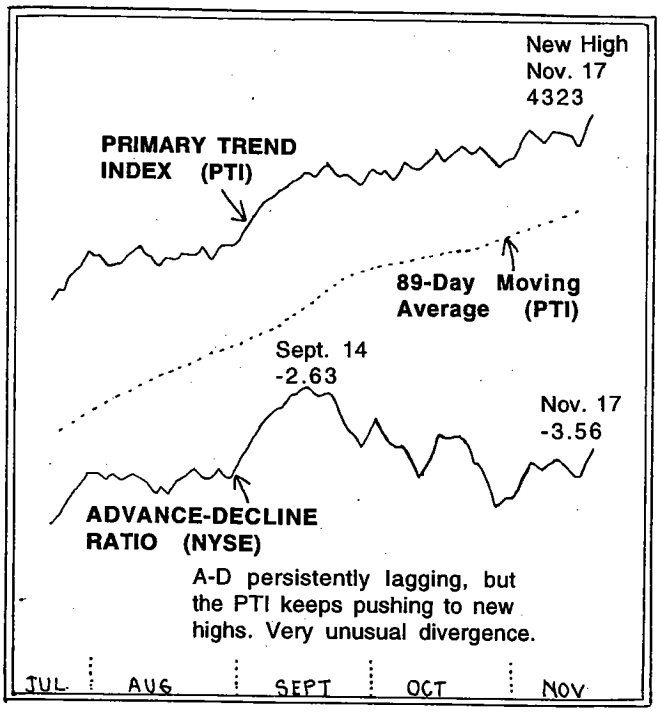
Nov. 10 DJIA 4870.37; PTI 4311; A-D Ratio -3.79
Nov. 17 DJIA 4989.95; PTI 4323; A-D Ratio -3.56
Dow Yield: 2.35%; Dow Price/Earnings: 15.2
Dow 200-day MA: 4481; Dow 30-day MA: 4806
Dow Times Book Value: 3.82; PTI 89-day MA: 4261
Percentage of Undervalued Blue-chips: 5%
Gold 200-day MA: 385.77; Gold-PTI: 631

But remember this -- the *longer the breadth/price divergence lasts, the weaker the technical condition of the market.*

DIVERGENCE IN OPINION: This is a truly fascinating period in stock market history. Why? It's fascinating because brokers are nervous (at least, that's what I've been told), old-timers are VERY nervous, stock market analysts are confused (some highly confident, some shaking), and the public -- the public, like "Ol' Man River," it "just keeps rollin' along" -- or I should say, the public just keeps buyin' along -- buying mutual funds at the fantastic rate of $8 to $12 billion a month.

I just read a most interesting piece written by Nick Murray, author of many widely-read and highly-respected stock market books. Murray advances a few of his "rules": (1) For investors the long-term risk is in *not* owning stocks. (2) Americans need to own far more equities than they now do. (3) Market timing doesn't work.





(4) Stocks go up 70% of the time, punctuated (though not lately) by horrific declines. The declines are temporary, the advances are permanent.

Murray then writes, "These days, however, I find in the unprecedented public enthusiasm for equity mutual funds a sign that this greatest of all bull markets is cruisin' for a bruisin' -- that it's overdue for a major correction . . . Finally, if equity mutual funds took in $500 billion in their first 69 years, and $500 billion more in the last 27 months, how can you doubt that something very ugly is on the horizon?"

Mr. Murray is a very smart guy, and I read his long piece carefully, and I thought a lot about it. I read it with that old Wall Street adage very much in mind. The adage states, "The market can do anything."

Everything that Murray points to above is true, uh wait -- let me change that to everything that Murray points to -- is true most of the time. But what if we are moving into a very unusual period? What if we are on the edge of a major bear market, a bear market that seeks to correct all the upside action since 1974 (remember, when this bull market started the Dow was at a 1977 low of 577.60)? How valid or true would Murray's rules be then?

The odds are always overwhelmingly against a primary bear market, particularly a huge one. But here's what worries veteran market observers: (1) This bull market is, by many measurements, the most overvalued market in history. (2) This is also the longest (in duration) bull market in history. (3) This is the most uncorrected bull market in history. (4) This bull market has attracted by far the largest public participation in history. (5) Finally, this bull market has taken on a "new era" flavor. Many brokerage house analysts and advisors are telling us that "this time it's different," a phrase that brings wry smiles to old timers.

PTI: This is one of those fascinating periods where the Primary Trend Index (PTI) is at variance with the advance-decline ratio. It is at variance in that the PTI is recording new highs while the A-D ratio has traced out a series of descending peaks. This dramatic situation is seen on the chart at the top-left of page 2.

Let's give credit to the Primary Trend Index as an amazingly accurate indicator. The continuously strong PTI has been pointing due North week after week, month after month -- and this despite lagging breadth and despite a dearth of daily new highs.

Last week, on November 15, the Dow rocketed up 50.94 points. This was followed on November 16 by another Dow surge of 46 points. To me, this latest Dow explosion had many of the earmarks of a short panic-squeeze. There's a very simple old market adage that fits the current situation. In the market, what won't go down will surely go up.

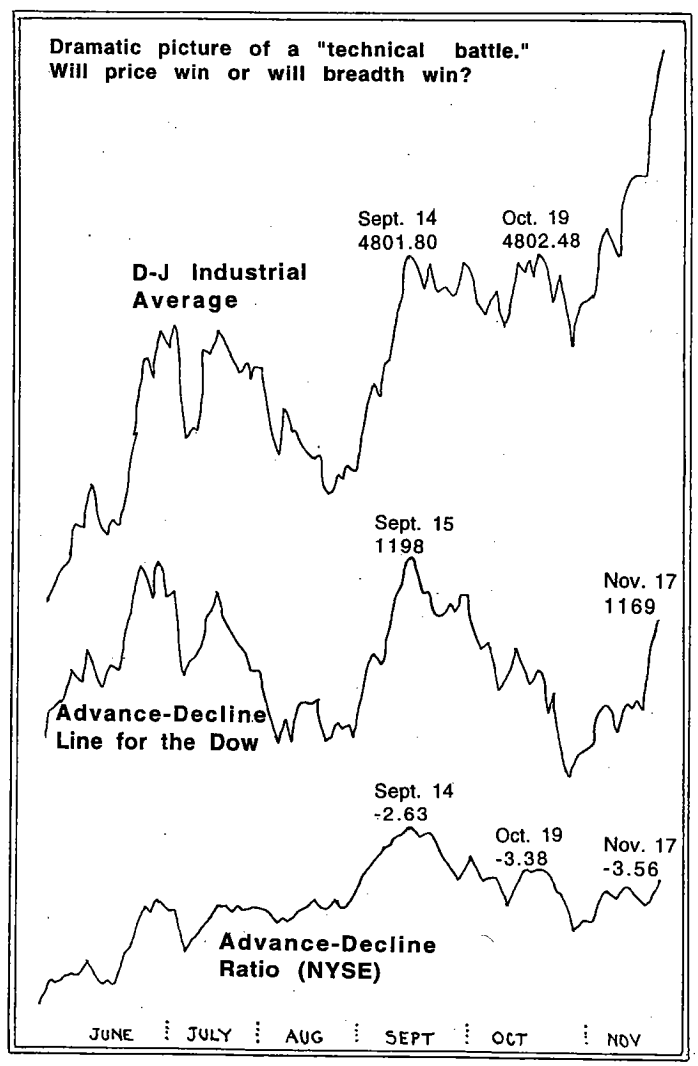
Picture yourself with a big short position. You've been waiting month after month for a hint of weakness. But suddenly -- deliverance. The US government will shut down. "Ah," you tell yourself, "this should do it. This should pull the rug out from under this ridiculous market."

But what happens? The market not only fails to go down, it pushes higher. Hope turns to puzzlement. Puzzlement turns to consternation. Consternation turns to fear, and fear turns to panic. You're tired of losing sleep. You're tired of sweaty palms. Finally, you capitulate. You cover your shorts. That could be what's happening now.

Now let's examine that bear's argument. Few appear to have recognized it, or at least they don't seem to recognize the significance of it -- but the declining trend in the advance-decline ratio tells us that the **majority** of stocks on the NYSE have been in downward trend since mid-September.

The same holds true even for those who hold a cross-section of the Dow 30 stocks. The A-D line for the 30 Dow Industrials topped out on September 15, and since that time the **majority** of the Dow 30 have been in a downtrend.

So beneath the seemingly uniform exterior of this market, a relentless struggle is taking place. It's obvious that the "big stocks" have been dragging this market higher. Remember, the Dow can



spurt sharply higher on a three-point rally in three or four Dow stocks, but it takes broad buying across the board to push the advance-decline ratio higher.

In past history once the advance-decline ratio (NYSE) tops out against a series of higher Dow closings, the entire up-move in the market is on borrowed time. There have been a few instances in the past when a lagging or diverging A-D ratio has reversed directions and rallied to new highs. This could be one of those times. We should know before the year is out.

INVESTMENT POSITION: This is a stock market for brave souls. The bull remains in the box, but note that he has his eyes fixed on that page 2 chart of the Dow and the two advance-decline lines. The bull has his hooves crossed in the hopes that the current divergence will "straighten itself out" and that the A-D lines will follow the Dow to new highs. Because if the A-D lines continue to deteriorate, this will not be a happy market to be in.

Caution is the watchword here. So, let's say it in Latin -- "Caveat emptor," meaning, as you well know, "Let the buyer beware."

There's been a bit of recent excitement among gold-philes based on the recent little pop in gold (the metal) and the more impressive push in the gold shares. Nothing's been proved on "precious metal alley" yet, but I continue to hold my gold coins. For more on gold turn to page 6.

DEFICITS, DEBT: While our government is largely dormant due to a clash of political wills, I thought the following discussion was appropriate.

Question: Russell, for years you wrote that pertaining to the US debt situation, the only choice we had was to "inflate or die." You haven't mentioned your "inflate or die" warning for a long time. Do you still believe it's valid?

Answer: I think it is more valid than ever. I just got tired of repeating that phrase. But I'll say it again, the US is in the position where it must inflate or die (die meaning recession or depression).

Consider this: as this is written we are still running deficits of $258 billion a year. This is the sum that has actually been added to the federal debt over the last 12 months. This amounts to about $706 million a day or the outrageous sum of $29 million an hour around the clock 24 hours a day -- day after day, seven days a week.

In order to balance the budget, to actually balance the budget, this unbelievable sum of $706 million a day must be cut out, eliminated. My question is -- what happens when the government moves to cut $706 million a day out of the economy? My answer -- recession or depression?

The answer that many economists come up with is that if we "grow" the economy enough, blow it up big enough, then we can eliminate the deficit, and it won't hurt us -- we won't even feel it.

However, there are a few big problems with this argument. One is that on a decade-to-decade comparison, the growth rate of the US economy is not increasing; no, the problem is that the growth rate is actually slowing down.

A second problem is that we are in what I consider the late stages of the longest bull market in US history. Trees don't grow to the sky, and bull markets don't last forever (despite what you may hear). So one has to wonder what will happen when this bull market tops out and turns down. One thing we know with certainty -- it's not going to help the economy.

At this time we are confronted with the following incredible situation: we have a national debt plus annual budget deficits which everyone (even our politicians) knows are unsustainable. Something has to be done. But alas, they waited too long to act (assuming they do act). Something should have been done 20 years ago.

Now we are faced with a situation where the politicians are all vowing to eliminate the federal deficit. They want to do this in the face of a giant credit bubble. They want to do this while the average American is "bought up" and in debt. They want to do this when the dollar is reeling. They want to do this because it has become a political imperative. The fact is that the American public is fiscally conservative even if they are socially liberal. But the American public votes -- they vote politicians in and they vote them out.

The horrendous fact is this: 43 cents out of every tax dollar that you and I pay now goes to pay interest on the national debt. Only 57 cents of your tax dollar goes to running the government. Thus debt and interest on the debt is eating this nation alive. We're compounding our way IN REVERSE into the poor house.

And so far, only the dollar knows it. The falling dollar is the world's verdict on the US condition. The cold, unemotional world verdict -- the US economy is heading for major trouble.

NOTES & QUOTES: Politics: On a deep level, Americans want a comforting father figure for President. The last two "Big Daddies" we had were Eisenhower and Reagan. Powell might have fitted the mold, but he wanted "a life," and as President of the US you spend a lot of time simply running for your life. Powell decided that he'd rather sign books and enjoy his family and fame and money rather than play leader. And who can blame him?

With Colin Powell out of the running, you have to think that Dole will be the Republican candidate. This presents a huge problem for the Republicans. My feeling is that if you vote for Dole you're not really voting for the man, you're simply voting for the Republican party over Clinton and the Democrats. The fact is that Dole doesn't have an attractive personality, he's a poor speaker, and he presents himself as a gruff, moody old guy. As a further problem for the Republicans, in last week's election they failed to sweep the South as it was predicted that they would do. Clinton vs. Dole, it would be a close, nasty, distasteful election. It would be an election where neither candidate captured the love or even the liking of the voting public. But they say that "the times produce the man." If that's true, then I have to conclude that the times are low-down, even ugly.

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The *Wall Street Journal's* circulation is over 1.7 million a day, and I'm thankful for that because only the *Journal* of any large-circulation paper carries the stories on Whitewater, the Foster "suicide" and the Clinton shenanigans (incredible silence from other papers on all of this). I also think that *WSJ* columnist Paul Gigot is one of the best in the business. In last week's column, Gigot notes that the Republicans have a message but no messenger, while the Democrats have a messenger but no message. As for Dole, Gigot calls him a candidate who, after 35 years in Washington, must consult his crib notes to know why he wants to be president. Nuff said on the Senator.

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The Vincent Foster "suicide" case just won't go away. Two weeks ago the *WSJ* featured a long editorial questioning the suicide thesis. Now three highly accredited handwriting experts have come forth, all three opining that the Foster suicide note (found torn and many days after Foster's death) is a forgery. The White House has worked hard to bury all implications that Foster's death was anything but a suicide. Ah yes, but the facts continue to suggest otherwise.

That the US public still puts up with Clinton fits in with my theory that Americans feel safer with the President and Congress in opposing parties. A Dem President and a Republican Congress (or

vice versa) makes it much more difficult to get anything done. And as far as Americans are concerned, the less Washington does, the better off we are. Or as Mark Twain said, "Just be thankful that we don't get all the government we pay for."

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I was particularly interested in the news (*WSJ*, Nov. 10) that the Wall Street firm of Neuberger & Berman is considering selling out part or all of the firm. I've followed this firm for decades, and I can tell you that they're one of the smartest firms on Wall Street. At present they handle $11 billion in mutual funds (up from $4 billion in '91, by the way). They also handle around $11 billion for rich clients. And I ask myself, why should a highly successful firm run by extremely bright people want to sell out at this time? Makes you wonder, doesn't it?

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ECONOMY: It's a mystery that just deepens. Which way is the economy going? Acute observer John Liscio [*Liscio Report,* (201) 509-2256] asks, "Only guys with bad eye sight and too much money in the bank worry about wage inflation these days. How can the economy continue to advance with declining real wages, falling home prices, and a stock market that's chasing its tail? Where are folks gonna get the money to buy whatever it is that folks still buy these days?" But then we have Ed Hyman of *ISI* writing, "Last week the Journal of Commerce, the CRB and Goldman Sachs (i.e., their commodity index) and lumber all rose. The increase in lumber and housing stocks in 1994 correctly signaled that the economy was accelerating." Hyman also notes that the Coincident/Lagging Index is rising, and when that index is advancing it's a prediction of a stronger economy. The Fed's attitude is expressed by the recent Greenspan statement that wage inflation isn't going to stay dormant forever. What to believe? Or maybe the answer is not to believe anyone -- just let the markets tell us.

* *

"Fear of Microsoft" seems to be the new economic disease. The Nov. 5 Sunday *NY Times* (magazine section) featured a long article stating that MSFT was planning to take over the world, making every one of us pay MSFT to see movies, make bank deposits, travel, on and on. It's the Micro-monster that ate the world. Actually, MSFT's Excel commands an 80% share of the world market. For word processors, Microsoft Word holds a 70% share. PowerPoint, MSFT's presentation graphics package, controls about 75% of the market while Microsoft Office, the leader in desktop applications, has reached a dominant world market share of about 84%. Thus it would seem that the great "battle for desktop" is over and that Microsoft is the winner. But events in the computer world move fast, and it will take time to see whether MSFT truly owns the world.

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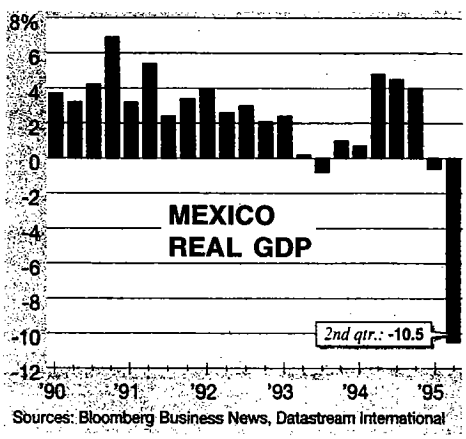
I stated in a previous Letter that "over 7 pesos to the dollar" was my "crisis" level for Mexico. Well, the peso is now selling at around 7.5 to the dollar, and it would seem that the crisis is rearing its ugly head. It reveals itself in this chart (courtesy of *Investor's Business Daily*).



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RETAIL: It's no secret that US consumers are up to their necks in debt and close to being tapped out. The squeeze on retail sales is being reflected in the price of most retail stocks, and also in a spate of bankruptcies. The parade of retail Chapter 11s includes Ames, Hills, Caldor, Edison Brothers, Jamesway, Bradlees, Petrie Stores. Kmart, according to rumors, is flirting with bankruptcy, and companies like Melville are eliminating stores by the hundreds.

* *

PAPER: Remember when the experts were predicting that we'd be living in a "paper-less world"? Well, it hasn't happened, not by a long shot. Actually, in the past 25 years the volume of paper used in offices has soared by 600%. Today's office staff often spends 60% of their time working with printed documents, reports.

* *

Aside from the Great Wall of China, the two biggest modern projects of man are (1) the new Three Gorges Dam on the Yangtze River in China (it will displace one million people before it is finished) and (2) the enormous new Hong Kong airport. As for the airport, this project will include a brand new town complete with schools, police stations, fire houses, and shopping centers. It will be home to 20,000 people. Also included will be two suspension bridges, one with a central span longer than that of Verrazano Narrows Bridge in New York. A high-speed rail system will whisk travelers the 21 miles from central Hong Kong to the airports in 23 minutes. A six-lane highway will go from the city's center right to the airport. There will be a third tunnel under Hong Kong's harbor. A total of 121 contracts worth $12 billion will be let out to build the massive airport. Hong Kong has no unions, so a lot of cheap labor will be imported, and work will go on around the clock, 24 hours a day and night. US firms will only have 2% of the work.

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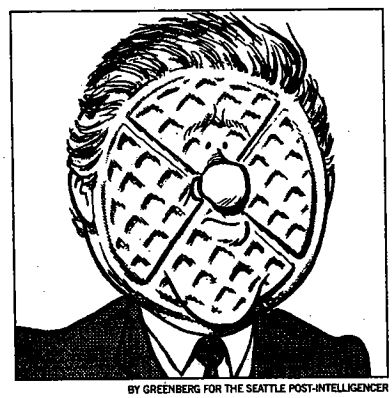
Remember when they called Noriega "pineapple face," just because he had a rotten complexion? Mean, mean, mean. But look here, a cartoonist is calling our President "waffle face." Now why would he do that?



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Synergy? Bronfman of Seagram buying 80% of MCA for $5 .7 billion. Eisner, lord of Disney, buying Capital Cities/ABC for $19 billion. Jordan of Westinghouse buying CBS for $5.4 billion. Levin of Time Warner buying 82% of Turner Broadcasting for $7.5 billion. *Financial World* (iconoclasts?) suggest in their Nov. 7 issue that these billion-buck mergers are mostly ego trips for their CEOs. "What we're questioning," says *Financial World,* "are the prices." *FW* continues, "In the end, none of these deals may live up to their advance billing." One investment banker says the current trend to vertical integration reminds him of the merger frenzy of the 1980s, designed to put a variety of financial services under one roof. It didn't work.

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OIL: My old friend, Charlie Maxwell, managing director of CJ Lawrence, and one of the nation's top oil analysts, notes in a recent report that "demand for oil in the world is rising quite buoyantly . . . but supply is growing just as fast, led by new areas opening to exploration by Western oil companies, and new technologies . . . In fact, the non-OPEC producing countries as a group can now essentially meet all the world's incremental demand, and are doing this, thus excluding OPEC countries from any growth at all." Maxwell notes further that "as their political constituents at home are clamoring for funds to underwrite economic growth, OPEC governments are being asked, 'What is the good of playing by the rules and restricting production when there is no apparent advantage in this policy?'" Maxwell concludes that shortly the six members of OPEC could "end OPEC as a price-fixing organization."

Can Microsoft screw up? Better believe it. After I jettisoned my old Royal Typewriter, I starting using Microsoft Word. That was their 5.1 version. I loved that software. Then some months ago Microsoft came out with its new Word 6.0. The program drove me nuts. Nothing worked. I hated it. I couldn't wait to get it out of my MAC. But was it me, or the program? I kept wondering. Then last week an article in the *San Diego Union* proved me sane. The headline told the story. The author (from Knight Ridder News Service) stated, "But it still ticks me off that Microsoft never conceded that the program was a kludge. On the phone they always assured me that no one else was complaining. It wasn't until I checked into the Microsoft folders on American Online and read the hundreds of scathing complaints about the Word 6.0 that I realized that Microsoft was in a siege mode, treating this as a public relations problem, not a technology problem."

Word 6.0 nearly drove him to his grave

Microsoft standoff on ballyhooed program infuriates some Mac users

By MICHAEL FINLEY
Knight-Ridder News Service

oday's topic is: Should Microsoft be made to

MAC TRACK

to great lengths to deny it."

Gisleson concedes that the complaints, including his own, get pretty whiny. But criminy, he said, the software dang near killed him. For him, it's too late for apologies — he has vowed to savage Microsoft every chance he gets. Like the shark in "Jaws 4" who crossed an ocean to kill the wife of the policeman who killed her mate, it's personal now. "They played us for suckers, and they got away with it."

Microsoft, asked for its view on l'affaire Gisleson, elected not to comment.

The good news, Gisleson said, is that the Internet and its on-line forums keep the big companies from putting the big lie over on us. We can compare notes on the Net and see that tons of people are having these problems, contrary to the companies' blame-the-user message.

A year after locking horns with Microsoft, Gisleson is a happier person. His health is back, and he's hoping to wring a few more months of use out of his old Word 5.1a.

But he's still one mad guy. "I angry because Microsoft took a product they knew was unfinish and poorly thought out, dumped on the market, then blamed its c tomers when the defects becam apparent."

How bad is it? "Microsoft has placed IBM as the company Ma ers hate most."

■ *Michael Finley can be sent electronic mail by the Internet a mfinley@ypoint.com.*

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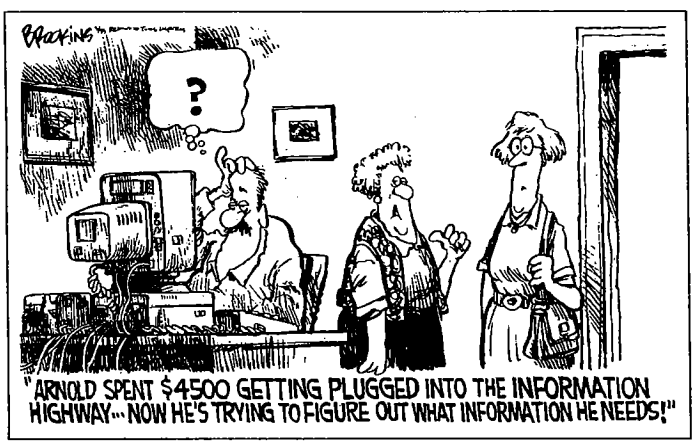
In the world of financial information, Michael Bloomberg reigns as king. Now Bloomberg is thinking of possibly going public or even taking over Dow Jones. Says Bloomberg, "Our customers tell us that what counts for them is quantity and speed of information. They may read the *Wall Street Journal* or the *NY Times* for in-depth analysis. But that's not what they want from us. Is a company going to report earnings better than expected or worse? The company may have said one thing, while three traders were quoted as saying something else. Our business is to give customers that kind of news accurately and instantly . . . I've trashed the Internet in the sense that nowhere is it used as much as you hear. And today there isn't any significant commerce done on the Web. Ultimately, the people working on the Internet will solve the security and reliability problems that now exist. But at the moment we are offering our customers our own private Internet without these impediments." **Russell comment:** I get on the Internet (via Netscape), and for one thing -- it's annoyingly slow. For another, I just don't find it that fascinating -- yet. I think the Internet and World Wide Web are still in the primitive stage. This cartoon isn't too far off the mark.



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Dow and DuPont have entered a $1 billion joint venture. For what? The answer is metallocene chemistry, which is expected to transform plastics. The technology makes plastics 500 times more efficient and on existing machinery -- in forms that have never been seen before. The metallocene technology will produce plastics which are more even, easier to process, adaptable and more flexible. Among other things, the new process will make polyethylene much stronger and much quicker to process; it will also render it transparent rather than the current opaque.

* *

SPORTS are bigger and more expensive than ever. What's sponsorship of the '96 Olympic Games worth? The answer according to Billy Payne, Atlanta's Olympic organizer is $40 million. "It was unheard of," says Payne, "People said it couldn't be done: the highest for a national sporting event was $4 million, not $40 million." But the money is coming in. For instance, UPS put up the big 40. UPS spokesmen say that the exposure the company will gain from the world's biggest sporting event is well worth the fat price. How about tickets to the games? People are frustrated because they can't get the tickets they want. Why not? Get this -- the games have already received over **five million** requests for tickets.

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The Treasury keeps talking about a new (and hopefully acceptable) one-dollar coin. The reason the Treasury would like a coin-dollar is obvious -- coins last a lot longer than "paper" dollar. The last issued dollar coin was the Susan B. Anthony, a chunk of base metal that proved to be a disaster (the Treasury still has a storehouse of millions of these clunkers). The Susan B. was the size of a quarter, was basically ugly, and had flat sides. Ugh. If the Treasury wants to issue a successful dollar coin, here's how it can be done. The coin should be the size of a silver dollar, and it should contain close to a dollar's worth of gold, and it should be gold colored (possibly gold plated). Such a "gold dollar" would gain immediate acceptance (problem -- gold dollars would be preferable to paper dollars).

* *

Sign of the Times? Christie's got off a rip-roaring auction last week. The *NY Times* wrote it up as "echoes of the 80s." The sale totaled $107.7 million. That was over the $100 million mark for the first time since late-1990. Picasso's painting, "The Mirror," figured to go for $10 to $15 million. It went for a staggering $20 million That's a lot of bread in the Russell estimation. Consider this -- at 6% interest it costs $1.2 million a year to carry that painting -- or $23,000 a week. Do you think the buyer was thinking in those terms? A day later Sotheby's conducted its own auction with sales totaling $113.6 million. The *NY Times* stated that "there were moments when bidding grew so fierce that no price seemed too high." Van Gogh's "Thicket" (a forest landscape) sold for a fat $27 million, almost three times the estimate of $10 million.

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The latest issue of *Fortune* magazine features a cover story, "The Wildest Billionaire in the West." But you know something, I'm getting tired of stories about the richest men in America. Maybe I'm ready for that new movie, "Leaving Las Vegas." It's the love story of a broken-down chronic alcoholic (Nicholas Cage) and an ex-prostitute who are involved with each other but on the road to nowhere. Last night I watched one of A&E's terrific biography programs. This one was about Albert Einstein. I was impressed when it was noted that Einstein felt that every possession was "like a stone around his neck." The great man had no use for possessions. *Fortune* and *Forbes* take note.

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Is La Jolla "international" or what? Outside our little La Jolla post office there are newspaper racks for the following: *Barron's, Wall Street Journal, New York Times, Los Angeles Times, San Diego Union, Investor's Business Daily, La Opinion, The European, International Express, Financial Times of London* (*FT* now printed in CA). Things change: when I moved out here in 1961 I had to wait four to five days for the US mail to deliver the *NY Times* and the *WSJ*.

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Two huge volumes entitled, "Reporting World War II" (Library of America, $35) were reviewed in the Nov. 12 *LA Times* by William Broyles, a co-writer of "Apollo 13." I thought the following from Broyles' review was fascinating: "Reporters who covered the war in Europe and then went to the Pacific war were stunned at its violence. One doctor on a hospital ship told Robert Sherrod that at Iwo Jima, 90% of the men needed major surgery compared to 5% when the ship was off Normandy during D-Day. The Japanese fought with a fanatical refusal to surrender. They, and the Americans, died with what Sherrod called 'unbelievable violence'. Each island closer to Japan became worse. More civilians died in the battle of Okinawa than at Hiroshima. Reading this book makes a mockery of the claims of today's historians that casualties from

an invasion of the Japanese mainland would have been relatively light." **Russell Comment:** Smithsonian revisionists please take note.

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Making money on movies is becoming progressively more difficult. The average film now costs a whopping $35 to $40 million (which includes distribution). For this reason, studios are gambling increasingly on trying to produce a blockbuster. To do this, they feel they need super-stars; consequently, the few super-stars are asking for astronomical salaries. The current top salary appears to be about $20 million for a star. But the parade of expensive losses goes on and on. The excellent "A Bronx Tale" cost $35 million, grossing only $17.2 million. The recent "Exit to Eden" cost $25 million, grossed $6.8 million. "Steal Big, Steal Little" cost $35 million, grossed $3.1 million so far. But even a star is no guarantee of profits. Stallone's "Judge Dredd" was a dud as was Demi Moore's "The Scarlet Letter." Jim Carrey received $4.1 million for his latest Ace Ventura nonsense film, but the pic opened with a massive $40 million weekend, this despite rotten reviews. Carrey (unknown three years ago) has had five hits in a row and now asks $20 million a film. Demi Moore, top female draw, was paid $12 million for the upcoming "Striptease." Hollywood is fascinated to see how this one does . . . In the meantime, smaller film companies continue to give up; these include De Laurentis, Weintraub, Orion, and Vestron. Last week Carolco filed for bankruptcy.

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GOLD: From my DTN screen, Nov. 16 -- "The World Gold Council told a London News Conference last week that world demand for gold has reached a 'phenomenal' level. Third quarter growth in gold purchases was up 16% over the last year. Demand in Japan was up 32% to 232 tons, and Indian demand was up 26% to 365 tons."

The world's central banks may not want gold, but evidently, the world's population (particularly Asia) does. And the frenzied global buying of gold continues (just count the number of gold jewelry ads in any fashion magazine). Will the huge current demand drive the price of gold higher? It hasn't done much for the metal so far, but I do think high world demand represents a plus for gold.

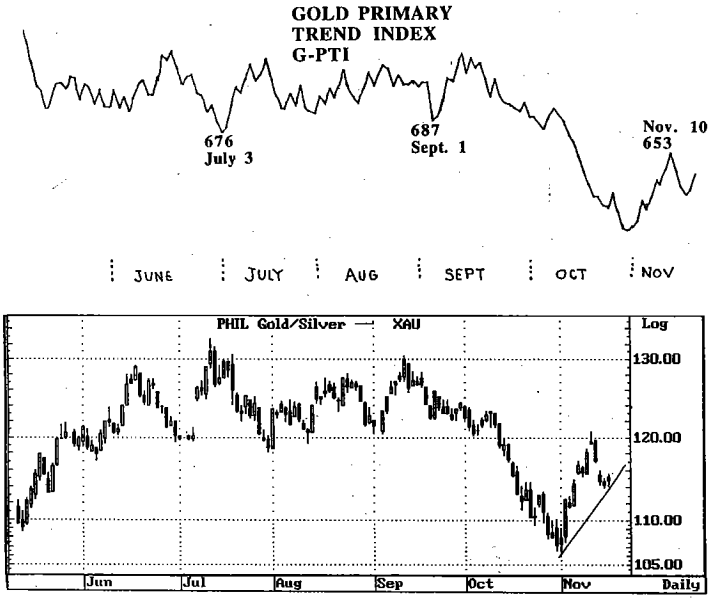
However, what really moves gold is not a frenzy for gold bracelets and rings, the real gold-mover comes from speculators who would rather hold gold than central bank-produced paper. Somewhere ahead that desire will materialize, but it's not here yet, at least not in the US or in Europe.

My Gold-Primary Trend Index (G-PTI) looks as though it may have bottomed. Recent action was positive. And for those who believe that cycles are helpful, my good friend, Kennedy Gammage (*The Richland Report* out of La Jolla) tells me that both the important three-year and nine-year cycles for gold shares are in the process of bottoming.

The Philadelphia Gold/Silver Average (XAU) has just sustained a good spurt from 106 to almost 120. XAU has now backed off, and it will be extremely important to see whether XAU can close over 120. If so, it will be in position to try the next important upside target -- 130 to be specific. If XAU can close above 120 I would think that we will see an impressive spurt in the gold shares.

Note: One gold mine is doing well. My good friend, Paul Penna, peripatetic president of Agnico-Eagle Mines Ltd., states that their earnings for the first nine months of '95 have jumped 46% to 46 cents a share. Reason -- increased productivity.

LATE NOTES: It's the number on every stockholder's mind -- 5000, as in "Dow 5000." There's no question about it -- the big even numbers possess great *psychological* significance. And there's no bigger even number than 5,000 (unless, of course, you want to talk about 10,000). So the whole universe of stockholders, market analysts, Wall Street historians and, of course, stockbrokers are eagerly awaiting the day when the Dow surges to and then above the fabled 5000 level. Heck, a Dow "above 5000" would even make the front page of (deep respectful breath) the *NY Times*.



In the meantime, I'm keeping my eyes glued to my PTI. A continued series of new highs in the PTI will almost guarantee a Dow above 5000. But if the PTI turns down (particularly in view of the divergences and non-confirmations as seen on the page 2 chart), then I'd say we can kiss Dow 5000 good-bye -- at least for a while.

As a matter of interest, the yield on the Dow last week was down to an historic low of **2.35%**, less than half the yield on the 91-day Treasury bill. Thus, those holding stocks here must hope for higher prices, since there is very little point in holding stocks for income.

When I first started watching the stock market (during the mid-40s) the value-test was that a stock was a buy if it yielded 6% and sold at no more than 10 times earnings. If someone had told me at that time that the Dow would some day yield 2.35%, I don't think I would have believed it (3.5% yield on the Dow was the time-honored level at which prudent investors sold their stocks).

RISK-REWARD: I want to end this Letter with a few words about risk and reward. This concept is particularly important at this point, a point at which the breadth of the market appears to be growing "tired." When breadth starts lagging, it means that it is increasingly difficult for a diversified portfolio to show gains. In many cases, lagging breadth will start producing losses in broad portfolios (and in mutual funds).

With the yield on the Dow at 2.35%, the risk of holding a large percentage of stocks becomes very high. If, and I say IF, the market is in the process of topping out, then breadth can lag or decline for many weeks (even months) while the big averages mask the deterioration.

I think we may be seeing this kind of subtle deterioration now. If it is occurring, we'll see it in the action of the advance-decline ratio, but it will take time to confirm a real trend. I'm watching.

Here's hoping that all my loyal subscribers are enjoying (or will be enjoying) a great Thanksgiving dinner along with the turkey, the stuffing, the mashed potatoes and the relatives (with their kids, of course). As for me, I'm going into the season with one hell of a cold (sniff, sniff, ah choo!). So down goes the vitamin C, 5,000 mg. a day and lots of Kleenex.

NEXT MAILING: Dec. 6, 1995